

REPORT OF
FINANCIAL EXAMINATION

**CENTURY MUTUAL
INSURANCE COMPANY**

As of:
December 31, 2004



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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January 19, 2006
St. Charles, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sir:

In accordance with your examination warrant, a financial examination has been made of the records, affairs and financial condition of the

Century Mutual Insurance Company

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 5118 Blase Station Road; St. Charles, Missouri 63301; telephone number (636) 250-4100. This examination was conducted at the home office near St. Charles, Missouri. The examination began January 9, 2006, and concluded January 19, 2006.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Missouri Department of Insurance in 2000, for the period ending December 31, 1999. The current examination covers the period from January 1, 2000 through December 31, 2004, and was conducted by an examiner from the Missouri Department of Insurance.

Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri.

Comments – Previous Examination Report

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

1. Comment: "The Board still needs to develop a policy and procedure manual to provide clear direction in the operation of the Company. Established policies and procedures would have been beneficial in the transition of the Company management that has taken place in the past two years. During that time, a new Secretary/Treasurer was named and three new board members were elected. An investment policy could especially benefit the Company. The return on invested assets for this Company was just 3.1% while the

investment policy could especially benefit the Company. The return on invested assets for this Company was just 3.1% while the average for all Missouri Mutuals was 5.0%. The Company also exceeded the FDIC insured limit in one of its bank accounts. An investment policy which considers such factors as safety, cash flow needs, maturities, and rate of return objectives would help ensure that the Company receives an adequate return on its investments.

Company Response:

The Company did not submit any written response to the prior examination report comments.

Current Findings:

The Company currently has no policy and procedures manual and has no investment policy.

2. Comment:

The Board should ensure that a quorum is present at all annual meetings and attendance is documented in the minutes. There will likely be changes in the Bylaws and Articles of Incorporation should the Company become a Part II company. These changes will require approval by policyholders at an appropriate meeting of the membership.

Company Response:

The Company did not submit any written response to the prior examination report comments.

Current Findings:

As of December 31, 2004 the Company attendance at quarterly Board meetings and at annual membership meetings was not documented.

HISTORY

General

The Company was organized February 12, 1881 as the Weldon Spring Insurance Company. On December 14, 1921, the name was changed to the Cottleville Mutual Private Fire Insurance Association of Cottleville, Missouri. On October 27, 1984, the Company voted to amend the Bylaws and Articles of Incorporation to operate as a Missouri Mutual under Section 380.011 to 380.151 RSMo. (Part I Mutual). On September 19, 2000, the name was changed to Century Mutual Insurance Company. The Company was changed to an Extended Missouri Mutual on November 30, 2000 and is currently operating as such under Sections 380.201 to 380.601 RSMo (Part II Mutual).

Management and Control

The Company is managed by a board of six directors, each serving a staggered, three year term. Directors are elected at annual meetings held the first Saturday of March. Eight members constitute a quorum at annual meetings. Presently, the Board meets quarterly and board members receive \$100 per meeting. In addition, the president receives \$250 per year. The Secretary/Treasurer, also acting as a company agent, receives \$325 per month.

The Board consisted of the following members as of December 31, 2004:

<u>Name / Address</u>	<u>Occupation</u>	<u>Term</u>
Eugene L. Weber, President 5096 Blase Station Road St. Charles, MO 63301	Farmer	2004-2007
Jerome J. Schulte, Vice President 8191 Highway 94 North West Alton, MO 63386	Carpenter	2004-2007
Wayne B. Boschert, Secretary/Treasurer 5118 Blase Station Road St. Charles, MO 63301	Farmer and agent for the Company	2005-2008
John Bethman 987 Silvers Road St. Peters, MO 63376	Farmer	2004-2007
Dennis Dunkmann 5199 Highway H St. Charles, MO 63301	Farmer	2005-2008
Raymond Boschert 3146 Airport Road St. Charles, MO 63301	Farmer	2003-2006

Conflict of Interest

Signed conflict of interest statements were obtained from all directors and none indicated any conflict situations. The Company's current practice is to require a board member to sign a statement when elected to the Board. There is no requirement to sign a disclosure on an annual basis. The board should require all directors to sign conflict of interest statements annually.

Corporate Records

We reviewed the Articles of Incorporation, Bylaws, and minutes from the annual meetings and board meetings. The Company is following the guidelines established in the Articles of Incorporation and Bylaws. Attendance at the annual meetings was not documented. Board meeting minutes indicated that the Board is adequately informed regarding the Company's operations. The Company needs to document attendance at its board meetings.

FIDELITY BOND AND OTHER INSURANCE

The Company had \$25,000 in fidelity bond coverage provided by the CNA Surety Insurance Company. This met the minimum requirement as suggested by the NAIC. Errors and omissions coverage with a policy limit of \$200,000 was obtained from the MAMIC Mutual Insurance Company. MAMIC Mutual Insurance Company also provided the company with a \$2,000,000 limit for directors and officers' coverage. The Company also carries a \$300,000 coverage limit property and liability insurance policy through the Employers Mutual Casualty Company.

EMPLOYEE BENEFITS AND PENSION PLANS

Excluding the six company officers and directors, the Company employs two part-time employees. Vicki Boschert performs the bookkeeping and financial reporting duties and receives a nominal monthly salary. The company provides no employee benefits.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company received approval as a Part II Missouri Mutual insurance company under sections 380.201 through 380.601 RSMo. on November 30, 2000 and has been operating as a Part II company since 2001.

Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders

The Company writes single premium, one-year renewable policies covering fire, windstorm, homeowners and liability. Policy forms used are from the American Association of Insurance Services (AAIS). The Company's primary agent, also serving as Secretary/Treasurer for the Company, performs property inspections and minor claims adjusting services, for which he receives a commission of 20% on all premiums written. Out of that 20% commission, part-time agent Matt Boschert receives a flat \$1,000 salary. Significant claims are adjusted by Company Adjustment Services, Inc. The Board of Directors establishes, monitors and revises all insurance rates charged to policyholders.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	2004	2003	2002	2001	2000
Admitted Assets	728,023	725,549	741,188	746,522	698,231
Liabilities	2,657	11,810	4,734	8,993	1,069
Net Written Premium	69,948	56,363	32,737	37,580	24,998
Losses Incurred	8,115	82,536	76,764	17,607	11,934
Investment Income	18,686	17,860	27,294	39,686	35,994
Underwriting Income	(7,488)	(40,728)	(28,449)	87	(9,236)
Net Income	11,627	(22,715)	(1,076)	40,318	26,770
Total Surplus	725,366	713,739	736,454	737,529	697,161
Insurance In Force	29,106,270	24,905,000	20,478,350	not reported	12,527,560
Policies In Force	260	238	212	183	179

These numbers are based on data from the annual statements provided by the Company.

REINSURANCE

Assumed

The Company does not assume any reinsurance.

Ceded

The Company is reinsured by Farmers Mutual Hail Insurance Company of Iowa through four contracts. The property per risk excess of loss reinsurance agreement provides coverage for property losses up to \$150,000. The Company's retention is \$10,000 on any one risk.

The property aggregate excess of loss reinsurance agreement reinsures all property business in excess of 200% of earned premium. Once the claim threshold has been reached, the reinsurer shall be liable for 100% of 1000% of the Company's earned premium or \$500,850, whichever is the lesser.

The property pro rata facultative reinsurance agreement provides coverage on a facultative basis for fire coverage losses. The limits are based on a schedule in the agreement, but cannot exceed \$1,000,000. The Company cedes premium on a pro rata basis and receives a ceding commission of 20% of the net premium ceded.

The liability quota share reinsurance agreement reinsures 100% of premiums written for liability coverage, subject to a maximum of \$1,000,000. The company receives a ceding commission of 18% of the net premium ceded.

ACCOUNTS AND RECORDS

The Company maintains its accounting records on a cash basis. Insurance policies are maintained on a personal computer based system. A general ledger is maintained through the use of Peachtree accounting software. Hardcopies of all insurance policies are maintained in a fire proof cabinet, and policy backup tapes are kept offsite.

Premiums received are recorded in a journal which summarizes premium activity for each month. The agent remits gross premiums on a monthly basis, which the Company deposits and then generates commission payments to the agent. As an assessable mutual insurance company, the Company is not required to maintain an unearned premium reserve. The Company's books and accounting records are audited annually by the CPA firm Hochschild, Bloom and Company, LLC.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements" which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only noted in the workpapers for each individual annual statement item.

ADMITTED ASSETS

Bonds	Note 1	\$	-
Stocks			1,500
Cash on Deposit	Note1		718,975
Reinsurance Recoverable on Paid Losses			4,986
Computer Equipment			170
Fixed Assets			216
Prepaid Expense			2,176
Total Assets		\$	<u>728,023</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Accounts Payable		\$	2,156
State Withholding Payable			501
Total Liabilities		\$	<u>2,657</u>
Guaranty Fund	Note 2		150,000
Other (Unassigned) Surplus			575,366
Total Policyholder Surplus		\$	<u>725,366</u>
Total Liabilities and Surplus		\$	<u>728,023</u>

STATEMENT OF INCOME

Net Assessments (Premiums)	\$	69,948
Net Losses		(3,246)
Underwriting Expenses		<u>(74,190)</u>
Net Underwriting Income (Loss)	\$	<u>(7,488)</u>
Other Income		430
Net Investment Income		<u>18,686</u>
Net Income	\$	<u>11,628</u>

CAPITAL AND SURPLUS ACCOUNT

Policyholder Surplus December 31, 2003	\$ 713,739
Net Income (reported by the Company)	11,628
Examination Changes (Net)	-
Policyholder Surplus, December 31,2004	<u>\$ 725,367</u>

NOTES TO FINANCIAL STATEMENTS

Note 1	Bonds	\$0
	Cash on Deposit	718,975

The Company reported \$277,000 of bonds; however, these investments were actually certificates of deposit. The balance in this account was reclassified to cash on deposit. Since this was a reclassification between two asset accounts, there was no change in surplus.

Note 2	Guaranty Fund	\$150,000
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As a Part II Extended Missouri Mutual company, a guaranty fund reserve is required. The amount of the reserve is the greater of a percentage of in force insurance or \$50,000 for each type of insurance written.

EXAMINATION CHANGES

Total Policyholder Surplus per 2004 Annual Statement: \$ 725,366

		INCREASE IN SURPLUS	DECREASE IN SURPLUS
Change in Bonds	Note 1		277,000
Change In Cash on Deposit	Note 1	277,000	
Change in guaranty Fund (Note 1)		150,000	
Change in Other Surplus (Note 1)		<u>-</u>	<u>150,000</u>
		427,000	427,000
Net Increase(Decrease) in Surplus			<u>-</u>
Total Policyholder Surplus per 2004 Examination			<u>\$ 725,366</u>

GENERAL COMMENTS AND/OR RECOMMENDATIONS

1. Bonds and Cash

The Company recorded certificate of deposit investments as bonds. The Company should record all certificates of deposit as cash for all future reporting periods.

2. Guaranty Fund

As a Part II Extended Missouri Mutual insurance company, the Company is required to comply with the provisions of RSMo 380.271 "Financial Reinsurance Requirements." The Company needs to establish and record a guaranty fund reserve for all future reporting periods.

3. Bylaws

The current bylaws are issued in a prior name of the company. The Company should amend or re-issue the company bylaws in the name of Century Mutual Insurance Company.

4. Board Meeting Minutes

The Company does not take attendance at the quarterly board meetings or the annual membership meetings. In order to quantify a quorum at each company meeting, the Company should record the attendance at each board meeting and/or membership meeting in the minutes.

5. Policy and Procedure Manual

As noted in the prior examination report, the Company has little documentation of internal policies and procedures. The Company is instructed to develop a written internal policy and procedure manual to provide specific guidance and direction in the future operation of the company. This policy manual should include (but is not limited to) procedures for an investment policy, conflict of interest statement policy, check signing policy, expense voucher policy, agents underwriting policy, claims payment policy, inspection process, and agent payment process.

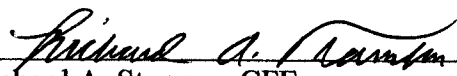
ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of the Century Mutual Insurance Company in the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
City of St. Louis)


I, Richard A. Stamper, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Richard A. Stamper, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 7 day of March, 2006.

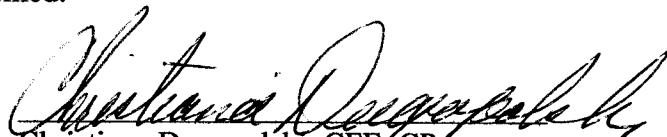
My commission expires:




Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with regulations and statutes of the state of Missouri has been confirmed.


Christiana Dugopolski, CFE, CPA
Audit Manager - St. Louis
Missouri Department of Insurance